

## **MEGA Response to Electric Choice Question #2**

This discussion is supplemental to the industry joint response to this question. When Congress passed the Energy Policy Act of 2005, it created the Electric Energy Market Competition Task Force, and assigned it the task of producing an extensive white paper exploring the evolution of retail and wholesale electric markets in the U.S., along with the successes and failures of each. The 185-page report offers thorough and objective insights.

The report identified the following state retail market structure issues:<sup>1</sup>

- Function of pricing for provider of last resort (POLR) – or default – service
- Adjustments to POLR rates
- Nature of POLR service
- Treatment of different customer classes
- Consumer education
- Customer aggregation
- Procurement of POLR supply, and
- Switching costs

Addressing its exploration of retail competition, the report said:

“With the expected benefits of retail competition in mind, the Task Force examined seven states in depth. These ‘profiled states’ – Illinois, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, and Texas – represent the different approaches to retail competition.

“In most profiled states, competition has not developed as expected for all customer classes. In general, few alternative suppliers currently serve residential customers. Where there are multiple suppliers, prices have not decreased as expected, and the range of new options and services often is limited.

Development of retail competition has been impeded to a considerable extent by the fact that several states still have capped residential POLR rates. C&I customers generally have more choices in both suppliers and of customized services, than do residential customers. However, most large C&I customers do not have the option to take POLR service at discounted, regulated rates. Alternative suppliers may find C&I customers to be more attractive because the ratio of sales to marketing costs

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<sup>1</sup> *Report to Congress on Competition in Wholesale and Retail Markets for Electric Energy*, The Electric Energy Market Competition Task Force, June 13, 2006, 71 Fed. Reg. 34,083 (2006), pp 7-8

is often perceived to be higher for these customers."<sup>2</sup>

The Pennsylvania Public Utilities Commission is conducting a comment proceeding in Docket No. 1 – 2011 - 2237952 to consider changes in the approach to default service in that state. An order seeking comments was issued on November 8, 2012, regarding a structure to have the market drive prices for default generation service of the distribution utilities. The idea is to have make the default service prices more market responsive and closer to the prices offered by competitive generation suppliers. Any new plan is targeted for 2015 but this case bears watching as Pennsylvania struggles with the issues of default service and the provider of last resort concept.

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<sup>2</sup> Ibid, pp. 91-92